



# Investment Policy

Finance Services

February 2019

## Investment Policy

UNIVERSITY OF EXETER  
INVESTMENT POLICY

Approved by Council on 28<sup>th</sup> February 2019

### 1. Scope

1. The University invests funds in several ways:

Type of Investment	Explanation	Governance
General Funds	Surplus cash arising from the normal operations of the University, usually short-term in nature, managed to ensure working capital requirements are met, seeking a return while preserving capital.	Treasury Management Policy
Endowments	Funds managed <i>in trust</i> in accordance with any specified restrictions in use and/or in the preservation of capital or otherwise, determined by donors.  Endowments are either: - Permanent (where the capital must be preserved) or - Expendable (where the capital must be applied)	Investment Policy <i>(ie this document)</i>
Subsidiary Undertakings	Investments in subsidiary companies undertaking non-primary purpose activity, in order to protect the University's charitable status and for the efficient arrangement of the University's tax affairs.	Case by case basis, driven by a business plan with Council approval.

1.2 This policy does not cover investments made by the Exeter Retirement Benefit Scheme which is a legally separate trust created to manage the pension assets and benefits of certain University staff.

1.3 When the University receives gifts and donations it will classify them in combination of:

- University general income: *an unrestricted donation or a restricted donation that is likely to be fully spent within 5 years*
- University research income: *a donation whose terms restrict the gift for a specific proposal that satisfies the Frascati definition of research*
- Permanent Endowment: *a restricted or unrestricted donation where the University is required to preserve the original capital gift in perpetuity*
- Expendable Endowment: *a restricted endowment that is unlikely to be spent in less than 5 years*

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- 1.4 This Investment Policy applies to funds classed as permanent or expendable endowments.

## 2. Introduction

- 2.1 The University of Exeter is an exempt charity, established by Royal Charter, whose purpose is the advancement of knowledge. The Royal Charter sets out an objective of the University:

*To act as Trustees or Managers of any property, endowment, legacy, bequest or gift for purposes of education or research or otherwise in furtherance of the work and welfare of the University which can lawfully be transferred to the University and to invest any funds representing such property, endowment, legacy, bequest or gift if not immediately required in such stocks and securities including the purchase of land as the University may think fit.*

- 2.2 University trustees act as stewards of endowment funds, undertaking to past, present and future donors to preserve and use funds in accordance with their wishes.

## 3. Responsible Investment and Engagement

- 3.1 Council adopt a responsible approach to investment and take ethical considerations into account in investment decisions whilst ensuring there is no significant detrimental impact on the investment return.

- 3.2 Specifically the University will only invest in entities that exhibit best class standards of behaviour and performance in a broad range of environmental, social and governance (ESG) issues using both positive and negative screening methodologies developed and deployed by its fund managers. This approach signals the University's ethical values whilst encouraging entities to adopt high and improving standards of ESG behaviour which the University believe will generate superior long-term financial returns.

- 3.3 Environmental, social and governance (ESG) is a term that embraces a basket of issues illustrated in the table below:

Environmental	Social	Governance
<ul style="list-style-type: none"><li>• Climate change</li><li>• Carbon emissions</li><li>• Pollution</li><li>• Deforestation</li><li>• Sustainability</li></ul>	<ul style="list-style-type: none"><li>• Human Rights</li><li>• Slavery</li><li>• Child labour</li><li>• Health and safety</li><li>• Employee relations</li><li>• Animal welfare</li></ul>	<ul style="list-style-type: none"><li>• Bribery and corruption</li><li>• Executive pay</li><li>• Board diversity</li><li>• Transparency</li></ul>

- 3.4 The University, or its appointed fund managers, will not invest in assets, stock or sectors which conflict with the University's objectives set out in its Royal Charter.

- 3.5 The University will not invest in entities that produce tobacco or which are directly involved in the extraction of thermal coal or the operation of oil sand assets.<sup>1</sup>

- 3.6 The list of absolute exclusions is deliberately kept to a minimum as it is Council preference to adopt a more progressive policy based on investing in entities that exhibit high standards of performance on a range of ESG issues, combined with a policy of engagement (via its appointed fund manager) to drive improvement in ESG performance.

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<sup>1</sup> A revenue threshold of 5% will apply.

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- 3.7 The University's fund managers will proactively engage with entities through direct engagement with companies on particular issues, for example via dialogue with company boards, proactively tabling resolutions and voting at AGMs. Fund managers are also expected to collaborate with other members of the responsible investment community to leverage impact on critical issues.
- 3.8 The University will publish a list of its full investments as an appendix to its Investment Policy in the interests of transparency, updating this each year.
- 3.9 The University will not exclude investments in sectors or companies that fund its research or where it accepts philanthropy (such gifts having satisfied the Reputation Management and Philanthropic Income Policy)
- 3.10 Any member of the University (staff, students and alumni) may make representations to the University with respect to specific investments that they regard as being contrary to the University's values or objectives. Such representation should be made in writing (or via e mail) to the CFO setting out an evidential based case. The CFO will present such cases to the University's Investment and Endowment Group for consideration.
- 3.11 The University requires its fund managers to:
- be signatories to the United Nation's Principles for Responsible Investments and to comply with the Financial Reporting Council's UK Stewardship Code
  - periodically report on the composition of the University's portfolio, the fund managers ESG policies and engagement activities and compliance to the UN PRI principles.

## 4. Investment Objective

- 4.1 The investment objective of endowment funds will be to achieve an absolute rate of return deemed achievable in the market place and sufficient to fulfil the charitable objectives of the donation, taking into account the University's ESG requirements, risk and any requirements to preserve capital.
- 4.2 The absolute return target is inflation+4% (net of fees) over a rolling five-year period. Inflation is defined as the Consumer Price Index.

## 5. Spending Rule for Permanent Endowments

- 5.1 The University operates a total return approach to the disbursement of permanent endowments, setting a spending rule based on total return, enabling income and capital gains to be applied to charitable purpose.
- 5.2 The current total return spending rule is 4% applied to the three-year historic average capital values of permanent endowments as at 31 July of each year. This rate of withdrawal is the rate deemed the sustainable withdrawal rate whilst preserving the real value of capital. The spending rule creates an annual budget allocation that is allocated to the relevant activity within the University's budget.

## 6. Risk

- 6.1 The University relies on generating a defined level of financial return to fund charitable activity in fulfilment of the wishes of past, present and future donors. The three key risks are inflation, fluctuations in capital values and currency risks.

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- 6.2 Inflation risk is addressed through setting an appropriate absolute return target and an appropriate spending rule (for permanent endowments) aimed only distributing (spending) sums that protect the real value of capital.
- 6.3 Permanent endowments, whether restricted or not, are expected to be preserved in perpetuity, allowing a long-term time investment horizon and accepting a higher degree of market volatility and therefore capital risk. The permanent nature of these endowments means short term capital volatility and is not considered a risk. However, permanent endowment balances may include an element of unapplied total return which can be spent and this element is exposed to capital risk.
- 6.4 Expendable endowments are generally intended to be spent over a shorter-term horizon (usually meaning under three years) so the investment of such funds needs to ensure they are not unduly exposed to capital risk.
- 6.5 Dual Assurance will determine and regularly review what proportion of unapplied total return permanent endowment funds and expendable endowment funds that can be exposed to capital risk (eg invested in equities) taking into account expenditure and liquidity requirements.
- 6.5 Currency risk will be managed by the University's Fund Manager who may elect to use currency hedging instruments if deemed appropriate.

## 7. Liquidity

- 7.1 The University will set its endowment funded expenditure budgets on the basis of the agreed spending rule set out in this policy. This will be funded from the total return – income and capital appreciation.
- 7.2 Permanent funds are intended to be held in perpetuity so liquidity requirements are not great. Expendable endowments are intended to be spent over a period of time (normally over 5 or more years) so require a higher level of liquidity.
- 7.3 At least 80% of the combined portfolio should be held in funds that have the capability of daily liquidity.

## 8. Governance, Management and Reporting

- 8.1 Council will delegate to Finance Dual Assurance the oversight and monitoring of the execution of its investment policy and the performance of its appointed fund managers. Finance Dual Assurance may make recommendations to Council to change fund managers if and when appropriate.
- 8.2 An Endowment and Investment Group assists Finance Dual Assurance in monitoring the performance of the University's fund managers. This group will meet with Fund Managers at least twice a year to review ESG and financial performance and engagement activity. The group may have internal and/or external experts co-opted on to it, along with the Presidents of the two student unions.
- 8.3 The Chief Financial Officer will prepare an annual report to Council on endowment investments, setting out the value of investments, their performance, ESG characteristics and fund manager engagement activity, highlighting any issues Council are required to know so that they may fulfil their fiduciary duties, legal obligations with respect to investments as well as compliance with the policy.

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- 8.4 The Chief Financial Officer will publish this Investment Policy, along with an annually updated list of all investments held by the University's fund manager, to promote transparency.
- 8.5 The Chief Financial Officer will have responsibility for responding to questions and queries arising from members of staff, students or alumni.

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Holdings as at 31st December 2019

Please note that the following information is valid as at 31/12/2019.

The provision of this information does not constitute a recommendation, investment advice, nor financial promotion. Holdings are subject to change without notice and their accuracy and completeness cannot be guaranteed. No part of this document may be reproduced in any manner without Rathbones prior permission.

SECURITY NAME	SECTOR
TREASURY 0% T-Bill 6/01/2020	UK Conventional Government Bond
LONDON STOCK EXCHANGE GRP PLC 4.75% MTN 2/11/2021	UK Inv Grade Bonds - Higher Quality
RABOBANK NEDERLAND 2.25% Snr MTN 23/03/2022	UK Inv Grade Bonds - Higher Quality
DEUTSCHE BAHN FINANCE BV 2.75% MTN 20/06/2022	UK Inv Grade Bonds - Higher Quality
FIDELITY INTERNATIONAL 6.75% Notes 19/10/2020	UK Investment Grade Bonds
A2D FUNDING PLC 4.75% Bonds 18/10/2022	UK Investment Grade Bonds
PGH CAPITAL LTD 6.625% Gtd Sub Nts 18/12/2025	UK Investment Grade Bonds
AVIVA PLC 6.125% Sub Perp RegS	UK Investment Grade Bonds
RATHBONE UNIT TRUST MGMT Ethical Bond S Inc (GBP)	UK Investment Grade Bonds
ABERDEEN STANDARD FUND MGRS Gbl Index Lkd Bond S Instl Inc	Overseas Index Linked Govt Bonds
PIMCO GLOBAL INVESTORS Global Real Ret Instl Hgd Inc	Overseas Index Linked Govt Bonds
HSBC GLOBAL INVESTMENT FUNDS Gbl Aggregate Bd Idx S5DH Inc	Overseas Investment Grade Bonds
JOHNSON MATTHEY #1.101698 Ordinary Shares	Chemicals
RIO TINTO PLC 10p Ordinary Shares	Mining
ASSA ABLOY NPV Ser B Shares	Construction & Materials
GALLIFORD TRY PLC 50p Ordinary Shares	Construction & Materials
KELLER GROUP PLC 10p Ordinary Shares	Construction & Materials
COATS GROUP PLC 5p Ordinary Shares	General Industrials
POLYPIPE GROUP PLC 0.1p Ordinary Shares	General Industrials
SMITH (DS) PLC 10p Ordinary Shares	General Industrials
KONINKLIJKE PHILIPS NV EURO.20 Shares	Electronic & Electrical Equipment
HILL & SMITH HOLDINGS PLC 25p Ordinary Shares	Industrial Engineering
SPIRAX-SARCO ENGINEERING PLC 26.9230769p Ord	Industrial Engineering
EXPERIAN PLC USD0.10 Ordinary Shares	Support Services
RENEWI PLC 10p Ordinary Shares	Support Services
DIAGEO PLC 28 101/108p Ordinary Shares	Beverages Household Goods & Home
BELLWAY PLC 12 1/2p Ordinary Shares	Construction
UNILEVER PLC 3 1/9p Ordinary Shares	Personal Goods
SMITH & NEPHEW PLC USD0.20 Ordinary Shares	Healthcare Equipment & Services
ASTRAZENECA PLC USD0.25 Ordinary Shares	Pharmaceutical & Biotechnology
CHR HANSEN HLDG AS DKK10 Shares	Pharmaceutical & Biotechnology
GLAXOSMITHKLINE PLC 25p Ordinary Shares	Pharmaceutical & Biotechnology
ROCHE HOLDINGS AG Genusscheine NPV Shares	Pharmaceutical & Biotechnology
INFORMA PLC 0.1p Ordinary Shares	Media
RELX PLC 14.44p Ordinary Shares	Media
BT GROUP PLC 5p Ordinary Shares	Fixed Line Telecommunications
VODAFONE GROUP PLC USD0.2095238 Ordinary Shares	Mobile Telecommunications
NATIONAL GRID PLC 12.431289p Ordinary Shares	Gas Water & Multi-Utilities

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ORSTED AS DKK10 Shares	Gas Water & Multi-Utilities
HSBC HOLDINGS PLC USD0.50 Ordinary Shares	Banks
LLOYDS BANKING GROUP PLC 10p Ordinary Shares	Banks
LEGAL & GENERAL GROUP PLC 2 1/2p Ordinary Shares	Life Insurance
PRUDENTIAL PLC 5p Ordinary Shares	Life Insurance
IP GROUP PLC 2p Ordinary Shares	General Financial
M&G PLC 5p Ordinary Shares	General Financial
BMO INV FUNDS (UK) Responsible Gbl Equity SC2 Inc	Equity Investment Trusts
BMO INV FUNDS (LUX) Responsible Gbl EM Equity R Acc	Equity Investment Trusts
BROWN ADVISORY FUNDS US Sustainable Growth C Inc	Equity Investment Trusts
HERALD INVESTMENT TRUST PLC 25p Ordinary Shares	Equity Investment Trusts
IMPAX FUNDS (IRE) PLC Environmental Mkts X Acc (GBP)	Equity Investment Trusts
INVESCO MARKETS PLC Tech S&P US Sel UCITS (USD)	Equity Investment Trusts
LIONTRUST INVESTMENTS LTD SF European Growth 2	Equity Investment Trusts
STEWART INVESTORS Asia Sustainability B Acc	Equity Investment Trusts
UBS ETF MSCI USA Social Response ETF	Equity Investment Trusts
VULCAN GLOBAL VALUE FUND Value Equity II Inc (USD)	Equity Investment Trusts
JANUS HENDERSON INVESTMENTS Gbl Sust. Equ I Inc	Non-Equity Investment Trusts
ASML HOLDINGS NV EURO.09 Shares (Post Split)	Technology Hardware & Equipment
GCP INFRASTRUCTURE INV LTD 1p Ordinary Shares	Infrastructure Funds
GREENCOAT UK WIND PLC 1p Ordinary Shares	Infrastructure Funds
OCTOPUS RENEW INFRA TRUST PLC 1p Ordinary Shares	Infrastructure Funds
RENEWABLES INFRASTRUCTURE GRP NPV Ordinary Shares	Infrastructure Funds
CHARITIES PROPERTY FUND Property Fund	Property Funds
MAYFAIR CAPITAL INVEST MGMT Property Inc Trust For Charity	Property Funds
WISDOMTREE METAL SECS LTD Physical Gold (USD)	Commodities (Non-Cyclical)
£ Capital A/c	Cash